

Regulatory Audit of Verizon California
and Its Corporate Affiliates
R.01-09-001/1.01-09-002

Joint Exhibit of Verizon California Inc.,
The Office of Ratepayer Advocates, and
The Utility Reform Network

Phase I - Financial Analysis

Beginning Reference Number	Audit Recommendation - Issue	Status	Accepted Expense Adjustments (millions) *(6) (Increase) / Decrease in VZ CA Expense							Audit Report Recommended Adjustments (millions)			
			1996	1997	1998	1999	2000	2001	Cumulative	1996	1997	1998	Cumulative
3	Svc Corp Factor Development (Z factor)	Resolved Accepted Adjustment			\$2.296				\$2.296			\$5.50	\$5.50
5	Historic Use of Factors (C&F factors)	Resolved No Adjustment							\$0.000	\$0.20	\$0.20	\$0.80	\$1.20
6	Historic Use of Factors (I factor)	Resolved Accepted Adjustment	\$3.988	\$9.890	\$10.024	\$8.152			\$32.054	\$4.00	\$10.00	\$10.00	\$24.00
8	Budget Center Testing	Resolved Accepted Adjustment	\$1.604	(\$2.734)	(\$2.997)	TBD	TBD	TBD	(\$4.127)	\$1.60	(\$2.70)	(\$3.00)	(\$4.10)
11	Manual Allocation (B factor)	Resolved No Adjustment							\$0.000			(\$0.20)	(\$0.20)
13	GTEDS ROR *(7)	Resolved Accepted Adjustment	\$10.600						\$10.600	\$1.80			\$1.80
16	GTEDS ROR	Resolved Accepted Adjustment		(\$1.310)	(\$0.070)				(\$1.380)		\$3.40	(\$0.07)	\$3.33
17a	GTEDS Pricing	Resolved No Adjustment							\$0.000			\$2.50	\$2.50
21	GTEDS Royalty Fees	Resolved No Adjustment							\$0.000	*(1)	\$0.60	\$0.20	\$0.80
25	Labs Beneficiary Analysis	Resolved Accepted Adjustment		\$2.460					\$2.460		\$5.90		\$5.90
30	Labs Overhead Rates	Resolved No Adjustment							\$0.000	(\$0.06)	\$0.02	(\$0.09)	(\$0.13)
33	Labs Third Party Losses *(3)	Resolved Accepted Adjustment	\$0.203	\$0.114	\$0.199				\$0.516	\$0.20	\$0.11	\$0.20	\$0.52
36	AGCS Cumulative Rate Base *(4)	Resolved Accepted Adjustment	\$0.184	\$0.631	\$1.390	\$2.318	\$2.746	*(5)	\$2.746				
36	AGCS Earnings - Expense *(7)	Resolved Accepted Adjustment	\$0.318	\$0.324	\$1.010	\$0.415	\$0.594	*(5)	\$2.661	\$3.20	\$4.20	\$9.90	\$17.30
44	GTEITS Cost/Market Studies	Resolved Accepted Adjustment	(\$0.063)	\$0.338	\$0.052	(\$0.009)	\$0.667	\$0.190	\$1.175	\$0.00	\$0.30	\$0.01	\$0.31
50	GTEDC Earnings *(7)	Contested							\$0.000	\$20.50	\$6.20	\$35.60	\$62.30
63	Remittance Processing	Resolved No Adjustment							\$0.000		\$0.40	\$0.02	\$0.42

**Regulatory Audit of Verizon California
and Its Corporate Affiliates
R.01-09-001/1.01-09-002**

**Joint Exhibit of Verizon California Inc.,
The Office of Ratepayer Advocates, and
The Utility Reform Network**

Phase I - Financial Analysis

Beginning Reference Number	Audit Recommendation - Issue	Status	Accepted Expense Adjustments (millions) *(6) (Increase) / Decrease in VZ CA Expense							Audit Report Recommended Adjustments (millions)			
			1996	1997	1998	1999	2000	2001	Cumulative	1996	1997	1998	Cumulative
66	CATV Conduit Agreement	Resolved No Adjustment							\$0.000	\$0.10	\$1.20		\$1.30
69	Bill Distribution	Resolved No Adjustment							\$0.000		\$0.10	\$0.05	\$0.15
77	GTE Wireless - Service Agreement	Resolved No Adjustment							\$0.000		\$0.10	\$0.10	\$0.20
80	GTELD Advertising/Telemarketing	Resolved No Adjustment							\$0.000	\$1.60	\$0.90		\$2.50
85	20% G&A Overhead Rate	Resolved Accepted Adjustment	\$0.014	\$0.417	\$0.266				\$0.697	\$0.090	\$0.792	\$0.714	\$1.596
87	IPT rate	Resolved No Adjustment	*(2)	*(2)	*(2)				\$0.000	*(2)	*(2)	*(2)	\$0.00
89	10% Mark-up	Resolved Accepted Adjustment	\$0.004	\$0.104	\$0.093				\$0.201	\$0.007	\$0.208	\$0.186	\$0.401
Summary of Total (Increase) / Decrease to Expenses * (4), (6)			\$16.668	\$9.603	\$10.873	\$8.558	\$1.261	\$0.190	\$47.153	\$33.24	\$31.93	\$62.42	\$127.59
Summary of Cumulative (Increase) / Decrease to Rate Base * (4), (6)			\$0.184	\$0.631	\$1.390	\$2.318	\$2.746	*(5)	\$2.746				

Audit Report Sch.1-2 Totals
Variance

\$35.90	\$31.80	\$62.40	\$130.10
\$2.66	(\$0.13)	(\$0.02)	\$2.51

Notes:

- *(1) Does not reflect \$1.3 million as noted on Audit Report Sch. 10-8.
- *(2) IPT adjustments incorporated with 20% adjustments.
- *(3) Not explicitly identified in Audit Report Sch. 1-2.
- *(4) Rate Base adjustments are not included in Summary of Total Expenses.
- *(5) Verizon agrees to restate the annual earnings filings for 2001, 2002 and 2003, or until Verizon's percent ownership in AGCS drops below 5%.
- *(6) Verizon agrees to restate the annual earnings filings for 1996 - 2001 to reflect the accepted adjustments.
- *(7) Where adjustments are made, the parties agree to use 11.5% for 1996.
The auditors revised the 1996 audit recommendation for AGCS from \$3.9 mil to \$3.2 mil.
The auditors revised the 1996 audit recommendation for GTEDC from \$22.7 mil to \$20.5 mil.